"Kirloskar Ferrous Industries Limited Q3 FY2021 Earnings Conference Call"

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KIRLOSKAR FERROUS INDUSTRIES LIMITED
A Kirloskar Group Company

MONARCH NETWORTH CAPITAL
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MANAGEMENT: **MR. R.V. GUMASTE - MD, KIRLOSKAR FERROUS INDUSTRIES LIMITED**
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MODERATOR: **MR. SAHIL SANGHVI - ANALYST, MONARCH NETWORTH CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Kirloskar Ferrous Industries Limited Q3 FY2021 Earnings Conference Call hosted by Monarch Networth Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sahil Sanghvi from Monarch Networth Capital Limited. Thank you and over to you, Mr. Sanghvi.

Sahil Sanghvi: Thank you, Neerav. Good evening to all. On behalf of Monarch Networth, we welcome you for the Kirloskar Ferrous Industries Limited Q3 FY2021 Earnings Call. We are glad to host the management from Kirloskar Ferrous Industries Ltd. Today, we have their MD - Mr. Mr. R. V. Gumaste and their CFO - Mr. R.S. Srivatsan.

So without taking much of your time, I will hand over the call to Gumaste sir for the opening remarks. Over to you, sir.

Mr. R. V. Gumaste: Good evening everybody. First of all, let me welcome all of you for the quarterly results update of Kirloskar Ferrous Industries Limited. I hope that everyone is doing well and away from COVID and I am happy to inform you that we have been having very few cases. As on date, we have almost 0 cases in all our plants which is a very good development and improvement which gives tremendous stability to our operations and also, we will be in a position to work continuously to meet the customer requirements.

A quick reference to our projects, we have completed the Coke Oven project by the end of the financial year, last year and in the quarter one and quarter two, we have moved on to the operation of the Coke Oven to full capacity. We have already crossed the 100% capacity utilization which is 2 lakh metric tons per annum, we are producing more than 18,000 metric ton of Coke per month in our Coke Oven which is more than the capacity. We are also generating 20MW of power from the Coke Oven. We have just completed the acquisition of Hiriyur plant with respect to taking over the plant. We are doing the maintenance and upgradation and cleaning and all the preparatory things for startup of the Hiriyur plant as early as possible and before the end of this quarter, we plan to start the plant within next few weeks, and we are also preparing and progressing to start the other projects in the Pig Iron business which is upgradation of Blast Furnace-2 and Pulverized Coal injection and other technology upgradation in Blast Furnace-2.

We are also preparing for taking up the Coke Oven and power plant phase 2 which is taking the Coke Oven capacity to 4 lakh metric ton per annum and power generation of 40 megawatts from the Coke Oven plant at an investment of close to Rs240crores. Upgradation of Blast Furnace-2, Pulverized coal injection, Oxygen enrichment is likely to take an investment of about Rs100crores in line with our long-term plan to take Koppal plant liquid metal or Pig Iron production capacity to 5 lakh metric ton per annum and with the Pulverized coal injection and oxygen enrichment. Subsequently, as we commission the Sinter plant in Hiriyur, that plant should give us 2 lakh ton liquid metal per annum. Total, we will go close to 6.8 or 7 lakh metric ton per annum. That would be the ultimate full capacity of the pig iron plants and in the meantime, we are moving ahead with all the debottlenecking projects improving the capacity in the core shop, melting shop and the fettling & finishing shops, so that we move ahead towards 1,50,000 metric ton of Casting production per annum. That is the ultimate installed capacity of 3 Foundries.

Basically, manufacturing non water-jacketed blocks, water-jacketed blocks and the Housings, we continue to invest and expand our machining capacities, both in Koppal and Solapur and with the interest from the customer, we will continue to invest more and expand the machining capacity. We also continue to develop new product as per requirement of our customers and that will add more volumes in the coming quarters. Right now, the Pig Iron plant is operating at full capacity, demand for Casting continues to be strong, Coke Oven and power plant operating in full capacity. There has been good progress on clearance of iron ore mines. We are yet to start the mines operation, but we are inching forward to go for startup operation of the mines.

Now, let me come to the quarterly results. For the quarter 3 of this year, we have revenue from the operations at Rs590.1 crores, other income at Rs56 lakhs, total Rs590.66 crores, 30% growth over the last year's third quarter which was Rs455.71 crores. We have done well on the control of expenses and many other costs, especially raw material costs because this year third quarter has the Coke coming from the Coke Oven plant and hence we could improve on the EBITDA. EBITDA last year was Rs53 crores, in this year quarter 3 EBITDA is Rs145.28 crores which stands at 24.6% margins. Moving forward, PBT which was at Rs34.36 crores last year third quarter, this year it is Rs119.78 crores which is very decent increase compared to the last year.

Coming to the material cost, this year, it is at 49.3% against last year 61.1%. Power cost has come down from close to 6% to 3.5%, employee benefit is going up compared to last year because of the turnover being still low. We are quite hopeful that in the coming months, with the Hiriyur plant becoming operational, we will catch up with the topline and once again show some progress compared to the last year. Financial cost remains at around 1%, profit before tax is at 20.3% and EBITDA as I told at 24.6%.

As far as the CAPEX outlay for the coming quarter and the next year moving forward, we are looking at upgradation of Blast Furnace-2, Pulverized coal injection, operation of the mines, Coke Oven phase 2 and power plant phase 2 and also completion of all the activities including Sinter plant operation in Hiriyur plant and also payment of the balance amount plus on the Casting side, machining capacity, adding machines as required with the new machining orders from the customers along with casting debottlenecking and capacity utilization enhancement.

You must have noticed we have already reached their level of close to 10,000 per month of Casting sales or 30,000 metric ton of Casting sales per quarter which becomes a run rate of 1,20,000 metric ton per annum and we look forward to increase further in the coming year, so we are also doing debottlenecking investment for fettling and finishing of the casting, automation projects and technology upgradation projects and whatever required to debottleneck and move forward. So we envisage 600 to 700 crores of investment in next 1-1/2 years to complete these projects and take the capacities both in Pig Iron and Foundry to their full potential and we are looking forward to increase capacity utilizations as well as the machining value. With this brief about the last quarter and the projects in progress, I would like to move on to the questions and answers based on your queries. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.

Chetan Phalke: Sir, have we added any new customers during last 3 months, 6 months?

Mr. R. V. Gumaste: To the best of knowledge, we are developing castings of the new customers, but I think we have added one customer in last 6 months.

Chetan Phalke: And sir, are we witnessing any trends wherein the global manufacturers, they are increasing their production from India in exports can inch up from here on, any trend that you witness from that particular side?

Mr. R. V. Gumaste: No, based on our capability of manufacturing Euro VI castings and very high end or critical castings what we manufacture, there has been definitely interest not only from the Indian customers, also from the customers abroad which we mean either deemed export or export. There has been gradual progress and deemed export and there could be coming forward some exports as well, but it will also require capacity expansions if we have to make any major export commitments which we are open if there are attractive proposition coming in our way for export as well as deemed export.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investment Private Limited. Please go ahead.

Sunil Kothari: All means, in terms of may be EBITDA, in terms of balance sheet and operational efficiency, sir really great numbers. Sir, my question and I wanted to understand two things is, broad casting outlook scenario for next 2 to 3 years, how you look at this current situation and second, combine Pig Iron and Casting, the material cost is roughly currently we reach around 49-50%, so which is a sustainable material cost you want to keep, which is your objective, may be over a year or three, so these are two questions?

Mr. R. V. Gumaste: Let me address the first question first. As far as we came out of the pandemic, quarter 1, quarter 2, basically it was the agri business or the tractor demand was at its peak and it continues reasonably at very strong level even today and later on, also we are into basically commercial auto and not passenger so much, but both have picked up recent weeks and months and we see further improvement in the auto number's sales. We definitely see good demand for the casting for this remaining months of this year as well as at least next year also, the projections, early indications which have come from the customers is that next year also, the demand for castings will be strong for almost all the customers, who buy casting from us. This is one aspect. As far as the margins or the raw material cost and then the EBITDA is concerned, two important aspects, first of all what are the positives for KFIL, which are sustainable positives, we today have our own Coke Oven as long as coal prices are soft and Coke prices and Pig Iron prices are strong, we get the benefit, but we can always expect some movement in the coal prices as well can become strong, they have already started becoming stronger and at the same time, the positive is, we have our own Coke Oven today and we generate power and we consume power. So we have from Coke Oven to the Blast Furnace direct conveyors, we have reduced fines generation, reduced consumption, reduced handling losses. Those are the positives and the technology of the Coke Oven being very good generates lot of power compared to any other Coke Ovens. It is the latest up to date. We generate 20 megawatts with 2 lakhs coke. No one else at least in India generate so much to the best of my knowledge and that is a positive and other aspect is, we have possibility to blend 4 types of coal which we keep doing, lower grade coal in a very high proportion can go into the Coke Ovens. That positivity is under our control and we have also tied up with one of our suppliers, partners for the coal to Coke conversion for next 16 months. We have started getting that from month of 1st of December and going forward also, we expect that we will have the benefit of coal to coke conversion right from now to till we commission our phase 2 as well. So definitely the raw material what you see in this quarter is definitely we think that it is difficult to sustain because of the commodity prices going up and down, but we will not be going back to 9%, 10% EBITDA which was before the Coke Oven. It would be much better level compared to that. There can be adjustment with the material cost.

Sunil Kothari: Sir, last question is, when we want to fully use our Iron ore mines allocation and how much it will pick in-house, I mean supply of the iron ore of our total requirement with each 5 lakh ton plus 7 lakh ton, I think capacity of iron ore of Pig Iron production, so how much iron ore we will require and how much will be through this two mines and by when you feel we will be able to price it?

Mr. R. V. Gumaste: I just mentioned that our aim is to operate all the three Blast Furnaces now including Hiriyur with Sinter plant and we may go up to the hot metal including the Pulverized coal injection up to 6.8 lakh ton into 1.6 i.e. we need about 1.1 million ton of iron ore total, lump and fines put together. With the current two small iron ore mines what we have got, the first year permission or first year mining plant is 2.5 lakh metric ton per annum and we will have the option to submit for enhancing which as you mentioned we will definitely try to go up into the mining quantity of 5 lakhs or 7 lakhs, but that is only in the second and third years as we get into. So at the best, I expect that it can take care of up to 60% of our requirement, 50 to 60% of our requirement from these two mines and we are open for participating upcoming iron ore mine's auctions, so that we also get one or two more larger iron ore blocks for our future requirement to cover full mining for our plant requirement.

Moderator: Thank you very much. The next question is from the line of Falguni Dutta from Jet Age Securities Private Limited. Please go ahead.

Falguni Dutta: Sir, just wanted to know when is the 1.5 lakh tons of Pig Iron capacity of VSL Steels going to get started?

Mr. R. V. Gumaste: We plan to commission the plant and I think it could happen in next few weeks and after that, we complete the Sinter plant and then it will go to full production with Sinter plant.

Falguni Dutta: So in FY22, can we expect 1,50,000 tons of incremental Pig Iron volume from VSL?

Mr. R. V. Gumaste: Our plan is to go for 1.8 lakh tons.

Falguni Dutta: From VSL?

Mr. R. V. Gumaste: Yes.

Falguni Dutta: And sir, this apart, you were also mentioning of last point is upgradation, so our capacity is 3.9 lakh tons currently is what I understand and then there is 1.8 lakh tons of VSL as you mentioned, so to this, do we have any more capacity expansions that we have planned in?

Mr. R. V. Gumaste: No, there are two types, once we upgrade Blast Furnace-2 similar to Blast Furnace-1, our daily production will go to 1300 tonnes per day which 341 days we get into close to 4,25,000 or 4,40,000 tons. This productivity or production is without PCI, so if we go for PCI with say 3% oxygen enrichment, there is a possibility to enhance the production up to 5 lakh tons from two Blast Furnaces in Koppal, so in addition to that, the Hiriyur output, but in the coming year, we will have at least 75 days stoppage of Blast Furnace-2 for upgradation. That will be loss of production, something we lose here and at Hiryur we add something, so next to next year we are likely to go to full production from all the three furnaces.

Falguni Dutta: And sir, as regards of the 3,90,000 tons of Pig Iron that we produce currently, how much is our captive consumption for casting?

Mr. R. V. Gumaste: About 10% is what we consume in-house between Koppal and Solapur, the 90% we sell in the market.

Falguni Dutta: And sir, rest 90% of the raw material that goes into Casting, is it entirely scrap?

Mr. R. V. Gumaste: Yes, you are right.

Falguni Dutta: And sir, Coke Oven how much compared to FY20, how much better are we in FY21 and FY22, so broadly if you can just help us know that Coke Oven would meet how much of our Coke requirement, in FY21 and 22?

Mr. R. V. Gumaste: No, I just mentioned that one is, we are likely to produce 2,10,000 from the Coke Oven here and we have also tied up for the conversion of coal to coke with one of our partners. Together, we will take care of 100% requirement of our coke either from our Coke Oven plus conversion through our partner.

Falguni Dutta: And sir, lastly, what would be the total quantum of our coke consumption, let us say in FY21?

Mr. R. V. Gumaste: 21-22?

Falguni Dutta: Anyone sir, FY21 also you can give the current year?

Mr. R. V. Gumaste: Basically, we are still consuming about, the total requirement up to now was close to around 2,75,000 tons for Koppal and to that you can add about 1,20,000 from the new plant. So our total coke requirement will be close to 4 lakh ton.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Sir, 2-3 questions, particularly say, whatever backward integration we have done in Pig Iron and then forward integration of machining, so how much that is helping us to improve our EBITDA margin approximately as even coal price keep on increasing at earlier level which was say around $200, still I mean we will be able to get some kind of benefit?

Mr. R. V. Gumaste: First of all, as I mentioned, the Coke internationally is not available. If we have to run our businesses efficiently, we need to have Coke Oven. There is no more choice left in the market anymore, so there is no question of $470 coke import and then make any business out of that, so the only option left out is to have our own Coke Oven or buy from Indian sources. So we have an efficient Coke Oven plant which is permitting blending as well as maximum power generation and it is efficient in our view given current scenario even if coal prices move up, we should be able to manage it quite well and as I just mentioned before Coke Oven and power plant we used to talk about the EBITDA margin of 9-10%, I think now in a sustainable way, we will be able to go much higher than that and you have seen in a good combination like coal prices being low and coke prices being high, the EBITDA margins are much higher like 24.6% last quarter.

Bharat Sheth: Sir, now and in coming to what is the current level of our machining vis-à-vis last year and how do we see that machining contribution improving of Casting in next couple of years, the kind of investment we are making?

Mr. R. V. Gumaste: We are very close to investment of about 100 crores in machining which can give us about 50 crores of machining value, but currently we are at may be 25-30 crores of machining value, but it will, as capacity utilization is now coming and machines are getting into place, we expect it to go to about 50 crores of machining and we plan to invest about 50 crores per year in next 4 years you can imagine that the machining value should go to about 125 crores or 150 crores in next 3-4 years.

Bharat Sheth: Sir, on this Casting realization, is there any difference between say, the farm equipment and auto particularly Euro VI. So with the Euro VI demand, the demand going up and more of a mix of auto, so do we expect some kind of a better realization?

Mr. R. V. Gumaste: No, I think many of our customers in auto and tractors are like dedicated customers and almost all the customers doing well as on today both auto and tractor. I expect the ratio of auto and tractor will continue to be similar at least for coming few months or couple of quarters, it can change as we develop more casting from the auto sector, then only it can change, but right now I expect the ratios to remain similar for the coming months and quarters.

Bharat Sheth: And this first Coke Oven plant has helped us to save approximately Rs40 crores on the power cost, so with the second Coke Oven plant coming, when will it start fully getting affected?

Mr. R. V. Gumaste: No, two important aspect in that is, when we add another 20 megawatts, we will also have to add consumption of 20 megawatts to get the full benefit. Otherwise, we will have to put into grid and use in Solapur or use in Hiriyur and then sell. Selling is the most inefficient because subsidy will come onto that, so our efforts going forward would be whatever power we generate, how do we consume ourselves, so that it becomes more efficient.

Moderator: Thank you very much. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Sir, firstly about this Euro VI implementation sir, how has the tonnage come into play for the Casting and has that got a boost in case of Euro VI castings implementation?

Mr. R. V. Gumaste: No, actually the anticipation was that Euro VI will increase the cost of vehicles and it may affect the demand. This was the original anticipation before COVID and COVID was a different ballgame altogether, but as the impact of COVID is waning away and normalcy is coming back from quarter 3 onwards, early indications from our auto customers is that the demand in spite of introduction of Euro VI and increased cost of vehicle, seems to be growing and is strong.

Saket Kapoor: Sir, I was only talking about due to the Euro VI implementation, the volume of the tonnage which was earlier required for the same specification has gone up and thereby consuming of more of casting in terms of the tonnage, that was my point, has that happened?

Mr. R. V. Gumaste: The consumption is one is to one and only the demand for casting will go up as the number of vehicles produced increase, so it is almost all customers who were in Euro IV have gone to Euro VI now and the demand continues to be similar and not anything different. Only thing if we add more customers or more types of castings from the existing customers, then the volume would go up and we are putting our efforts to add volume to line 2 where capacity is available.

Saket Kapoor: In the Casting business, what have been our utilization levels for the last quarter sir for the December quarter?

Mr. R. V. Gumaste: This is we have gone to run rate of 1,20,000 ton and usable capacity I think it can go up to 1,50,000, so 120 by 150, we are at a capacity utilization of all three lines put together at around 80% of usable capacity.

Saket Kapoor: And what is the outlook on this, the Pig Iron prices sir and the scrap availability also, how much of scrap are we consuming for the cast in manufacturing and how are the scrap prices behaving?

Mr. R. V. Gumaste: As regards to scrap, we almost consume equivalent to what casting we produce and scrap prices, I would say almost 90% or 80% we consume the scrap, 10% of Pig Iron is about 40,000, so you can say around 7000 to 8000 ton of scrap is what you consume every month and the prices of steel scrap, last 4 to 6 weeks, have continuously gone up and right now it seems to be softening as we stand today. How much it will come down, will have to watch and see, but they have softened, it can also have some effect on Pig Iron, but we are holding on to the prices of Pig Iron, but there can be corrections in the prices downward or where it will stabilize or they will pick up again, it is extremely difficult to say at this point of time, because demand for casting continues to be strong, so demand for steel scrap will also continue to be going up or remain as strong as it has been in the last quarter.

Moderator: Thank you. The next question is from the line of Ayush Agarwal from Mittal Analytics. Please go ahead.

Ayush Agarwal: Sir, I have my questions regarding the Coke Oven plants, sir, as you know that we are about to spend around Rs370 odd crores on Coke Oven, how much have you already spent?

Mr. R. V. Gumaste: Most of it.

Ayush Agarwal: Most of it, but we still haven't commissioned the second battery, we have only commissioned one battery?

Mr. R. V. Gumaste: Rs370crores is for phase 1 only. Currently, we are working on infrastructure development around the Coke Oven that is the only investment left out and completion of performance space and related 5 or 10% payments, that is the last payments which are being spent now and phase 2 will have its own investment which is estimated to be about Rs240 crores.

Ayush Agarwal: And sir, on these Rs370 odd crores what we have spent, what kind of cost savings are we seeing in at least like the last two quarters when it has been running at full capacity?

Mr. R. V. Gumaste: I think last one quarter, it is running at full capacity and you have seen the results. The EBITDA has gone up from Rs53 to Rs145 crores that is the movement, but in that there are two components, one is the benefit of the Coke Oven and power plant and also the benefit of the advantageous position of coal prices being low and Coke prices and Pig Iron prices being strong, but I think there is substantial value addition from the Coke Oven. We expect Coke Oven should pay us back in about 3 to 4 years, because I can always expect market up and down, but 3 to 5 years payback on Coke Oven is what we expect.

Ayush Agarwal: And sir, my last question is this partner that we have tied up with, what would be the conversion rate at which we have tied up with this partner for additional?

Mr. R. V. Gumaste: I don't want to go into more details on that. I request your understanding.

Moderator: Thank you very much. The next question is from the line of Sahil Sanghvi. Please go ahead.

Sahil Sanghvi: Sir, my first question is regarding the casting realizations, how much more price hikes can we still expect if you can give us kind of a range to cover the input cost inflation?

Mr. R. V. Gumaste: Whatever the price increases in the month of July, August, September, most of the customers settled it from 1st of October or 1st of November based on understanding with the customer, most of them from 1st of October and whatever has been the price increase from October, November, December, three months, they are getting settled from 1st of January and most of them are getting settled with effect from 1st of January. As the increase has been very steep in October, November, December, may be some part of the increases are getting even now negotiated and settled and we expect to complete that within a week or two, so that up to date, whatever has been the increase in the raw material, alloys and power up to the end of December is settled by most of the customers, but the effect will come in this quarter from January, but also please note that material cost impact will also come from 1st of January in this quarter fully and there will be definitely the effect of material cost increase as well as the price increase.

Sahil Sanghvi: Sir, just on that front, our iron ore is on spot basis, right sir, so we definitely must have seen some cost inflation in our Q3 results from the iron ore front? Is that correct understanding?

Mr. R. V. Gumaste: Generally, we don't have too huge stock of iron ore, we keep participating in e-auction and our stocks were typically less than one month iron ore stock, so whatever is the market price of iron ore is what we are buying at the most with a lag of 1 to 1-1/2 months.

Sahil Sanghvi: My second question is, regarding the CV demand, so are you seeing any kind of change in the demand outlook or I mean what is your view on that front sir, because the production numbers are still muted, sir, so how do you see that sir?

Mr. R. V. Gumaste: Early indication of February and March is, demand is for more castings from the auto players. I am talking about the auto customers who are connected with us mainly.

Sahil Sanghvi: This is essentially CV sir, because my question is essentially on the CV front?

Mr. R. V. Gumaste: Yes, heavy commercial vehicle.

Sahil Sanghvi: And sir, one more question is that except from the power cost that we are already trying to control, is there any other savings that we can squeeze out when it comes to the casting production process? Is there any more improvement we can get on the casting production cost?

Mr. R. V. Gumaste: Once ongoing effort is cutting down on the rejection front, other than that is our own power consumption and utilization and in addition to that there are always efforts in terms of waste elimination and capacity utilization going up also spreads the fixed cost, semi-fixed cost, hence the advantage of capacity utilization especially the LD power consumption doesn't go up so much with increased capacity utilization and hence we get advantage of reduced power consumption per ton of casting produced. So these are the three areas where we will be working for getting some benefit on variable cost reduction in Casting.

Sahil Sanghvi: And just one last question sir, regarding the Genset application, the Castings that we were about to commence, so have we started commercial production, what are the current production rates if you can disclose and how many customers do we have over there?

Mr. R. V. Gumaste: Are you talking about two-part foundry?

Sahil Sanghvi: Yes, the Genset application for the engines, the diesel engines that we were supposed to start, sir?

Mr. R. V. Gumaste: I think you were talking about large castings produced in Solapur through two-part foundry. It is still in the beginning, not major commercial….

Moderator: Thank you very much. The next question is from the line of Akshay Satija from Alpha Investments. Please go ahead.

Akshay Satija: I just wanted to know if there are any updates on the forward integration that we were looking forward to, may be some value-added steel or DI prices or something like that, do we have anything concrete yet for extending the planning phase?

Mr. R. V. Gumaste: I don't have anything to disclose at this point of time other than what I have spoken about casting capacity expansion and Pig Iron manufacturing capacity expansion. Other than this, we have nothing to disclose at this point of time.

Akshay Satija: So if you could just give us an idea of what sort of machining capacity do we have right now, so when we say we have a casting capacity of 1,50,000, how much can we machine out of that?

Mr. R. V. Gumaste: About 20% are in value terms, about 50 crores machining per annum. That is the current installed capacity.

Moderator: Thank you. The next question is from the line of Neelam Punjabi from Perpetuity Ventures. Please go ahead.

Neelam Punjabi: I just had one question, our employee cost has gone up pretty significantly this quarter, so is there any one-off here or can we take it as a base going forward?

Mr. R. V. Gumaste: I think it has a big component of one-off as we decided to give back all the salary cuts what was implemented in the first quarter has been given back to the employees fully and properly. We also decided to give the increments with effect from 1st July 2020, so there is a provisioning for that. Also, the workman agreement which is in discussion which is from 1st of

April, some increased provisioning for that based on the better performance and results, so it has lot of components which is one time in nature. That has to be taken into consideration.

Neelam Punjabi: Sir, could you please quantify the total amount of one-off, if possible?

Mr. R. V. Gumaste: See, our typical increase could be of the order of about including the impact of agreement it could be about 7% to 8% increase compared to last year.

Moderator: Thank you. The next question is from the line of Jimesh Sanghvi from Principal Asset Management. Please go ahead.

Jimesh Sanghvi: Couple of things are on the PCI injection, what is the quantum that we are doing right now and what is the level that we plan to reach going ahead? That was one, second, on the phase 2 are we again setting up 2 lakh ton Coke Oven battery if yes, when that we expect that to get kind of commissioned and what would be the peak debt that we expect over the next two years with Rs600 to 700 crores of CAPEX that we have planned?

Mr. R. V. Gumaste: With respect to Pulverized coal injection into Furnaces, we don’t have the facility as of now, we are not doing any PCI injection into furnaces and we look forward to go may be up to 100-120 kg of coal injection, because we would be manufacturing foundry grade hence the injection levels would be lower, could be 80 kg, up to 120 max and with respect to Coke Oven, our phase 2 would be 2 lakh metric ton capacity and we plan to complete that project in about 15 months from now.

Jimesh Sanghvi: And what could be the peak debt that one could expect?

Mr. R. V. Gumaste: All depends. Typically, my understanding is that we continue to pay the debt as well and we may remain around Rs200-300 crores peak debt and not borrow too much.

Jimesh Sanghvi: So do we plan to raise any equity for this, or it will be largely debt funded and internal accruals?

Mr. R. V. Gumaste: It would be mainly internal accruals.

Jimesh Sanghvi: And sir, just one clarification, you said 75 days of stoppage for the BF upgradation, right?

Mr. R. V. Gumaste: Blast Furnace-2.

Jimesh Sanghvi: And sir, if you can share the kind of improvement in spreads for the Pig Iron in Q3 vis-à-vis Q2 if you can share that number?

Mr. R. V. Gumaste: See, I don’t have many details on that, but I think as you know I think the topline growth is 30% based on increased casting as well as the price increase on Pig Iron.

Moderator: Thank you. The next question is from the line of Abhisar Jain from Monarch Networth. Please go ahead.

Abhisar Jain: Sir, my question is related to the casting provision, like we have been talking about that in the annual reports that our new product development time has reduced considerably, particularly after the commissioning of the 3D printing, so sir, just wanted to understand from you that how many new product developments would we be undertaking now after doing these kind of improvements versus say what we were doing 1-2 years back, means in terms of the number of new products that we develop for our existing or new clients, what would have been the increase that we would have seen?

Mr. R. V. Gumaste: The new product development cycle time has come down, but new product development will be based on what new orders we book and what new orders we book depends also on what capacity we have and how much capacity utilization we can increase from quarter to quarter and year to year, so I can say that our first priority definitely has been our existing customers and one or two customers also getting added year-on-year, but the development of casting was maximum demand and requirement was at the time of changeover from Euro IV to Euro VI. Now, henceforth, that development will come down, but new additions and also whatever new customers we add and existing customers new casting we add, we will continue to develop and they could be of the order of, there are also model change related casting development and typically, we will have each location around 15 to 20 casting developments, minimum.

Abhisar Jain: Sir, what I was trying to understand is that are we able to take up more work of our existing customers itself because now we have the faster product development cycle capability and hence we can do more models for them than we used to do in the past?

Mr. R. V. Gumaste: Typically, as you know we make block heads and the housing and most of the customers we are at almost 100% supply to them. So whatever is the volume increase or new model launches, we will be there to development and most of the customers are happy to give that to us as we have been able to do well on NPD as well as ramp up and also super quality supplies.

Abhisar Jain: And sir, just one clarification on the VSL plant, what kind of working capital investment do you see in that and also on the upgradation and maintenance that you would have done in that plant?

Mr. R. V. Gumaste: I think we had set aside around, I think Rs15crores for the maintenance, revamp, cleanup and startup. I think we will be in that range for the start up with the Sinter plant and Sinter plant we expect to spend about Rs30-35 crores to start the Sinter plant.

Abhisar Jain: So Rs135crores plus Rs15crores plus Rs30-35crores for Sinter plant and working capital together?

Mr. R. V. Gumaste: Together, all put together within Rs200 crores.

Moderator: Thank you. The next question is from the line of Shailesh V from B&K Securities. Please go ahead.

Shailesh V: Sir, with Rs700 crores CAPEX plan including the capacity addition and backward integration, what kind of incremental revenue and PBT you are targeting and as per your assumption in how many years do you think we can achieve full incremental number?

Mr. R. V. Gumaste: As you know, these have two components, one is investments related to capacity increase which are basically Hiriyur plant and Casting increase, the part of the investment is for the cost management, which is the Coke Oven and Power, so one is that apart, but our plan is to look forward for 6.8 lakh ton of Pig Iron and 1,50,000 tons of casting. All these CAPEXs are to achieve that and we expect good topline growth in the coming years as Pig Iron is a commodity, it also depends on the pricing, but like we are looking at possibility of going forward and our topline this year also could be close to Rs2000 crores or may be slightly more, but coming years, as the volume increase, I think topline growth would be definitely much better next year and next to next year.

Shailesh V: You are expecting 20% progress sir in terms of volumes?

Mr. R. V. Gumaste: I think it would be much more because Hiriyur should give us 500 crores of sales and Casting business should give us, you can calculate we are at almost Rs. 100 a kilo and we look forward that in two years, we should reach 1,40,000 or 1,50,000 as the market demand is going strong and Pig Iron at 6,80,000 instead of 3,80,000 is 3,00000 addition, which include of course Hiriyur. So we expect better than that. We have not yet worked out. Once we work out, we would be in a position to share more light, but in the Casting business, volumetrically we expect year-on-year at least to grow about 15%, at least plus the inflation effect and Pig Iron is an addition of one more Blast Furnace. Combination of this will take us much more than 20% growth in coming years.

Shailesh V: Sir, in Casting business, what is our current market share in domestic tractor and CV segment and what is the current content per vehicle for tractor and CV in terms of kgs?

Mr. R. V. Gumaste: Typically, tractor has 800kg to you can say 1000kg of casting, one ton of casting per tractors is a norm, but out of that we supply Block Head and the Housing. Block Head and Housing could be of the order of 400kilos approximately and which is a major content, so you can say that if India is moving towards something like 1 million tractors, I think you can say that 1 million ton of casting. Out of that 0.5 million is our market and so you know we are at around the 20-30% market share. It depends on how we measure, we are the participants in that 1 million market. We don't make all castings, all kinds of casting of a tractor. It is Block Head and Housing which are the bigger casting. So it is about 0.4 million out of the tractor is what we address. Out of that you can say that we supply about, you can say 40,000 out of 5,00,000. We are around 10% market share if I put the Housings also, but when we look at Block and Head, we have 30% market share or 40% market share in Block and Head put together.

Shailesh V: Sir, with full utilization level including the newer CAPEX, what kind of return ratios you are targeting, sir?

Mr. R. V. Gumaste: What kind of?

Shailesh V: 15-16% return ratios?

Mr. R. V. Gumaste: You are talking about EBITDA?

Shailesh V: ROCE and ROE, return ratios?

Mr. R. V. Gumaste: I don't know, so I think it has to be much better than 15%. We are talking about 15% EBITDA and the return it has to be much better than that. Last year, in FY19-20 we were at ROCE of 15% and last quarter we are at 26.5%. We should be somewhere in between.

Moderator: Thank you. The next question is from the line of Aravind Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: This is Bhavin Chheda. Sir, if I see your numbers from the website, your casting realization has just improved Rs. 3 a kg and almost near at last year levels only, so what kind of price negotiations are you seeing here based on the quarterly or monthly contract?

Mr. R. V. Gumaste: The peak raw material cost increase has been something like Rs. 10 a kilo and I don't think customers are really getting into that kind of price increase immediately. So whatever is the impact in the month of, see that also what happens is it is the average of October, November, December. So most of the customers have settled around 5 to 6% price increase and something will come definitely in the next quarter also, something is coming next one or two weeks also, so it is very difficult to tell which customer is giving, how much, it is not the matter of discussion, but we are trying, there is an understanding with most of the customer, whatever is the impact of raw material, alloys and power increase, on an average quarterly basis is being passed on to customer and I think it will happen as per the understanding because we have also in the past few quarters, we have given the reduction also to our customers, hence I expect customer to settle the increase also as per the formula.

Bhavin Chheda: So based on the price increases, the sharp steel price, which happened in December and early January, your casting realization was roughly Rs. 94 a kg in the December quarter, so this have showed already been excess of Rs. 100 right based on the steel price hikes which have happened in December?

Mr. R. V. Gumaste: I think this question, you can also calculate, you have to put the average price of October, November, December, then you are required to calculate January, February, March, what happens, we have to see to the raw material costs in February-March. It would be the average of October, November, December and January, February, March. If the raw material price continues at the same high level, we will get the full benefit in next quarter which will be from

1st of April, but start of the increase, what has already happened in October, November, December, will be coming from 1st of January.

Bhavin Chheda: Other question sir, on the coking coal inventory, how much do we normally have?

Mr. R. V. Gumaste: This is a strategic planning part, and we are well covered before this increase.

Bhavin Chheda: Normally, 30 to 40 days is what the steel players normally have the inventory, so we are also in line with that? We have more, we have less?

Mr. R. V. Gumaste: At least this time, much more.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain: Sir, this BF-2, company is likely to take stoppage for upgradation?

Mr. R. V. Gumaste: Phase 2?

Sunil Jain: No, I am talking about Blast Furnace-2?

Mr. R. V. Gumaste: Yes, we are ordering now.

Sunil Jain: Sir, when you will be taking that stoppage?

Mr. R. V. Gumaste: Next year, middle, we would be after about 8 months, we would be taking the stoppage to complete the upgradation because it will take 6 to 8 months for supply.

Sunil Jain: And Casting at current level, what is the capacity utilization?

Mr. R. V. Gumaste: I just now mentioned, 80%, our usable capacity.

Sunil Jain: But we can go up to 100% or how?

Mr. R. V. Gumaste: Yes, definitely, when I say usable capacity, we have upward possibility to move up another 20%.

Sunil Jain: And last sir, this iron ore mines what we have got, when we are starting to get ore from that?

Mr. R. V. Gumaste: My team still promises me that I will get the iron ore from our own mine before the end of this year because there are so many levels of approvals and file clearances etc., but my team is still hopeful that we will at least get some iron ore from our own mines before the end of this financial year.

Moderator: Thank you. The next question is from the line of Manish Goel from Enam Holdings. Please go ahead.

Manish Goel: Sir, I just missed, initially you mentioned on the power plant, what is the power generation we had out of 20 megawatts in this quarter?

Mr. R. V. Gumaste: Most of the time, we were generating close to 20 megawatts.

Manish Goel: Okay, at a full capacity we were and how much of it?

Mr. R. V. Gumaste: More fine optimization could be possible, but we were running full last quarter.

Manish Goel: So how much would, like it could have been used for in-house consumption for the Casting, sir? Out of 20?

Mr. R. V. Gumaste: About 1 crore units per month between Pig Iron and Foundry put together.

Manish Goel: And sir, can you provide, basically two questions on the castings, one is, in terms of breakup of the casting volumes among the industry, like in terms of tractors, CV, engines, and basically genset, so how is it panning out now, sir?

Mr. R. V. Gumaste: I think about earlier, last quarters, it is more picked up from the tractors and now gradually auto is picking up, I think we had gone up to 50% tractors, it may come down little bit, 40-45%. About 10-12% would be gensets and balance 50% would be auto. As we have deemed export, the drop has not been that deep.

Manish Goel: And last question on the volumes in the Casting, if you can give us some sense as to the volume share from the new customers which we may have acquired over last 1 or 2 years or any metrics which company follows, say on a one year or a 3-year basis, just want to get a sense volume contribution from new customers?

Mr. R. V. Gumaste: No, there have been very smart pickups. Earlier, customers of course continue to be very strong growths, all our customers have very smart growth over the last 2-3 years and it is a big challenge for us to increase the volume for the newly acquired customers, but we are moving forward with committed volumes and over the period, we may be required to create some more quality capacity to meet the requirement of newly acquired customers.

Manish Goel: So when you said we are debottlenecking from 1,30,000 to 1,60,000, is that we would achieve that by when sir, this 1,60,000?

Mr. R. V. Gumaste: I just mentioned 1,50,000 as usable capacity after the Foundry stage rejection and actual usable capacity and our current run rate is 1,20,000, we have to go to 1,50,000 which I think will happen in next about 18 months' time.

Manish Goel: And last question on the VSL, you mentioned that we will probably start the production, the Furnace over there in few weeks, sir?

Mr. R. V. Gumaste: Yes.

Manish Goel: And when do you expect the Sinter plant to start, sir?

Mr. R. V. Gumaste: Because of pandemic, we have got the extension for completing the project within earlier environmental clearance. Lot of possibilities are there, we are trying to commission that within next few months.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Sir, when we are talking of next year FY22 stoppage of 75 days**,** the Pig Iron's production for upgradation, so is it fair to assume that it will be compensated by the commissioning of VSL plant?

Mr. R. V. Gumaste: No, my assessment is, even if we take 3 months, 3 months of Blast Furnace-2 is 45,000 tons and VSL, I just mentioned 1,80,000 from next year.

Bharat Sheth: Sir, you were saying on this loss of production because of this closure of Blast Furnace for upgradation, how it will be compensated from VSL, you are giving that….

Mr. R. V. Gumaste: I just told that the stoppage of Blast Furnace-2 may reduce the production by 45,000 tons and VSL or our Hiriyur plant, we plan to produce 1,80,000 next year.

Bharat Sheth: And I missed our opening remarks some part, sir, what is our current as on 31st December gross debt and net debt including working capital and fixed term loan?

Mr. R. V. Gumaste: No, I just mentioned that most of our planned investments in the coming 18 months are likely to get funded with our internal accruals. If any gap, we will be borrowing, but our total peak debt may not go above 200 to 300 crores and working capital typically is, lot of it goes through 180 days credit on coal purchase which is imported and plus the regular working capital which is required to continue to maintain similar level. As volumes increase, the increase may be marginally there, but we don't see any major increase.

Bharat Sheth: And currently, what is our average cost of borrowings?

Mr. R. V. Gumaste: For the working capital?

Bharat Sheth: Working capital as well as term loan?

Mr. R. V. Gumaste: Term loan around 6%, working capital less than 5%.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I will now hand the conference over to Mr. Sahil Sanghvi for closing comments.

Sahil Sanghvi: Thank you, Neerav. We want to thank Ravidranath sir and Srivatsan sir for patiently answering all the questions very elaborately. We also want to thank the participants for joining the call. Gumaste sir, would you like to give any closing comments or should we end the call.

Mr. R. V. Gumaste: Thank you very much everyone first of all Monarch for organizing this conference call and all the participants of today's call. Thank you very much for your overwhelming response and interest in Kirloskar Ferrous Industries Limited.

Moderator: Thank you very much. On behalf of Monarch Networth Capital Limited, that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.